

: Harish Maxwell

cc. TG, WTM, GEK, JRH,
LR, CW, MJ (PM EEC)
R.W.Murray, F.H.Dulles
T.M.Kearns, L.Pollak
R.L.Snyder,
K.Haley (PMI)

LSH FOR WEEK ENDING FEBRUARY 4, 1983

LEGAL

1. E.E.C.

No response was received from the Commission to the draft settlement presented on January 21. However, we have learned that the Commission may still be concerned about PM's membership on the Board of RTH. DG IV has not yet consulted the Commission's legal service concerning our settlement proposal, but this is not unusual at this stage. Caspari and Ferry were due to brief F. Andriessen about our proposal on Thursday, February 3. We could hear from Ferry this week.

2. GERMANY

a) F.C.O.

1) We have engaged Professors Berg and Muller to do further economic studies for us. We now have the following experts preparing opinions for filing with the Berlin Court of Appeals :

- Prof. Armin Gutowski (President, HWWA Institute for Economic Research, Hamburg) - A general economic study of the German cigarette market.

This study is essentially done, but may require updating in view of recent developments in Germany.

- Prof. Horst Albach (Institute for Business and Economic Studies, Rheinische Friedrich Wilhelms University, Bonn) - A computer-based econometric study on the German cigarette market.

Prof. Albach is yet to complete his work, and the present draft is not quite satisfactory.

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- Prof. Hartmut Berg (University of Dortmund) - A scientific-economic appraisal of the effect on competition of PM's investment in RTH on the German cigarette market, in light of various economic theories. Berg was recommended to us by Prof. E. Gunther.
 - Prof. Jurgen Muller (German Institute for Economic Research, Berlin) - An economic study of the German cigarette market emphasizing the impact of advertising on competition in oligopolistic markets.
 - Prof. Rudolf Bernhardt (Max Planck Institute, Heidelberg) - An expert opinion on international law questions.
 - Prof. Wolfgang Fikentscher (International Law Institute, University of Munich) - An expert opinion on the conflicts of law principles applicable under German anti-trust law.
 - Prof. Lucius Wildhaber (University of Zurich) - An expert opinion on the (limited) question of whether the effects doctrine of the Law of Nations can be applied by one state (in this case Germany) as a basis for jurisdiction when the other state involved (in this case the U.K.) has rejected the application of such doctrine.
 - Mr. E. Lauterpacht, Q.C. (U.K. Barrister, London, instructed by RI) - An opinion under English Law on whether the FCO can exercise jurisdiction over the transaction generally and over RI in particular.
- 2) Mr. Heidenhain has informed us that he is in contact with all the above experts and that they will be ready with their briefs by mid-March. There will be a meeting in Munich on February 11 to brief Messrs. Berg and Muller on the workings of the cigarette market in Germany.
- 3) Messrs Axster, Hirsch and Heidenhain will meet Mrs Werner on February 10 to request an extension for filing our response and the hearing by one month, namely : the submission of the response from March 14 to ^{to} April 14, and the oral hearing from April 25 to May 25.
- 4) Our first draft brief for the court will be available in German on February 10; the English translation will be ready several days after. The draft will be discussed in Frankfurt on February 24.

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b) U.S.A.

o/s
L. Pollak, accompanied by David Morse and his associate, Marc Palay, visited the U.S. State Department on Monday, January 31, to discuss the implications for the U.S. of the FCO's extension of its extra-territorial jurisdiction in our case. The State Department persons they saw were Elizabeth Verville (Deputy Legal Advisor), David Small (Assistant Legal Advisor, United Nations Affairs - he will become Legal Advisor, Economic and Business Affairs), Ronald Kleinman (Attorney Advisor - Economic and Business Affairs) and Lawrence Greenwood (Economic Officer - Office of Economic and Business Affairs). It was agreed that further documents will be submitted by PM. After studying the matter, the State Department will get back to us in 3 - 4 weeks and indicate then whether the U.S. Government could or would take any diplomatic action on our behalf.

3. Australia

We have learned that on or around Thursday, January 27, the Minister for Primary Industry answered (by inserting it into the written record) the question put in Parliament last October 21 by Mr. Kerin, the Labour Shadow Minister for Primary Industry, about PM's investment in RTH/RI. The Minister apparently said that the Government had investigated the matter and concluded there was no action to be taken.

II. OPERATIONS

1. Factory visits

The following arrangements have been made for PM personnel to visit RI factories:

February 24 - Brinkmann in Berlin

March 3 - Turmac in Zevenaar and Harderwijk

March 25 - Carreras Rothmans in Carrickfergus, Northern Ireland

It has also been arranged for Mr. Kennaghan, Operations Director, Carreras Rothmans, to visit PM factory in Berlin.

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1. PLANNING

1. Germany - Chesterfield pack

We have received a request from Brinkmann to change the existing Chesterfield pack in Germany, with the design on both sides, to the "international" pack with a descriptive legend on the back of the pack. In addition, they have requested to lower the numbers printed on the sticker from K 15 to K 14 and to use a 10 pack bundle wrap with a single color, brown on white.

Approval has been given by phone for the pack and numbers change but we are waiting for an example of bundle wrap before deciding whether to approve this.

2. Nigeria

Messrs. Maitland and Dundas (CR) will be in Nigeria as of February 8 to visit PMN's facilities in Ilorin and to discuss the market situation in Nigeria.

3. U.S.A.

EH raised recently with V. Brink whether any progress had been made by RI on the matters associated with PM taking over TEI Atlanta including a trademark license for Dunhill. It is now clear that RI have taken no action whatsoever on the issues involved nor do they seem likely or willing to take any.

Due to the fact that the whole USA trademark question is unresolved, RI are not expected to do anything until that is finalized.

4. Trademark Roy/Royal Czechoslovakia

Brinkmann will not appeal the Roy/Royal court decision which clears the road for the use of the PM trademark Roy.

2. FINANCIAL

1. Bonds

EH and TG met with M. Gatenby (Hill Samuel) and M.J. Hockridge to discuss the implications with the London Stock Exchange Panel on any conversion by PM and/or RG of their bond holdings. Hill Samuel will prepare a paper which will be given to RG to agree a joint position.

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2. Rembrandt Results - 6 months to September 1982

Some more information has now been received on RG's results for the 6 months ending September 30, 1982.

The results had been announced as showing a profit improvement of 39% but further analysis shows the following position :

	<u>1982</u> R 000		<u>1981</u> R 000		
Net profit from subsidiaries	72,042	5335	71,283	17527	24.7
Profit from associated companies	35,489	2960	29,223		29.7
	<u>107,531</u>	8295	<u>100,506</u>	17527	102.4
Provision against investments	-	-	23,827	23827	
	<u>107,531</u>	23827	<u>76,679</u>		
Extraordinary items	8,731	1150	1,155		11.5
Attributable to RG members	<u>116,262</u>	84127	<u>77,834</u>	63054	63.0
	=====		=====		

It can be seen that the improved results have come entirely from associated companies (which will include RI) and no repeat of a provision against investments. The results from subsidiaries were only marginally improved from the prior year.

The share prices of the Rembrandt Group have increased dramatically in recent months and the price of Rembrandt has risen from R 9.50 to R 19.60 (increase of 106%) from March 1982 to January 1983. In the same time the Stock Exchange Index has risen 41%. The main reason would appear to be recognition of the large cash resources of Rembrandt and the value of its investments in key South African mining and industrial companies.

V. GENERAL

1. The RI annual Marketing conference will take place on April 28 - 30, 1983 at the International Hotel in Zurich.

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2. Share Price of

	<u>Jan.21, 83</u>	<u>Jan.28, 83</u>
Rothmans International (£)	125p	125p
RI Convertible £/Bonds (DM)	3617	3611
Dunhill (£)	300p	285p
Carrolls (Irish £)	71p	70p
Tabacofina (BF)	2700	2700
Rothmans of Pall Mall Canada (Can.\$)		
- Common	44-1/2	45
- Preferred B	12-1/2	12
Carling O'Keefe (Can.\$)		
- Common	12-5/8	13-1/4
- Preferred A	21-1/2	22
Rothmans of Pall Mall Australia (Aus.\$)		
- Sydney	n.a.	6.30
Rothmans Industries, N.Z. (N.Z.\$)	n.a.	1.50
Rothmans of Pall Mall Malaysia (Sing.\$)	3.00	3.06
Rothmans Industries Ltd (Sing.\$)	1.75	1.76

Regards.

E. Hounfner

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